



Small business and infrastructure: Broadband

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Foreword

Over the next five years the Government expects investment in UK infrastructure to be some £200 billion. The National Infrastructure Plan, launched by Government in October 2010, sets out the challenges facing UK infrastructure, a prioritisation of what needs to be delivered, and the Government's role in enabling and mobilising resources to tackle the infrastructure challenge.

As the UK emerges from the economic downturn, it is crucial that small businesses are given the tools and the incentives to prosper and grow. This report, which forms part of a series considering the infrastructure

needs of small businesses, discusses small business use of, and demand for, broadband, and presents an argument for Government to go faster and deeper in its ambitions for deploying broadband in order to stimulate growth. Taking the needs of small businesses into account when planning, operating and maintaining core infrastructure is essential to promote the economic powerhouse that small businesses



Professor Neil Hoose
Chairman of the Infrastructure Policy

“it is crucial that small businesses are given the tools and the incentives to prosper and grow”

Introduction

In February 2011, the Federation of Small Businesses (FSB) invited its members to take part in an infrastructure survey, which looked at the infrastructure issues affecting small businesses in the UK today. The survey asked for views on transport, broadband access, utilities and issues relating to the current planning system and its proposed reforms under the current localism agenda.

This report, which forms part of an infrastructure series, contains some of the findings of that survey. It sets out some of the challenges that small businesses face with regard to UK infrastructure and proposes actions that Government, its agencies and local authorities should take to create the best environment for small businesses to grow and prosper. The FSB is the UK's leading business organisation, existing to protect and promote the interests of the self-employed and owners of small firms. The FSB is non-party-political and with in excess of 200,000 members it represents just under five per cent of the 4.5 million small and medium sized

businesses in the UK, making it the largest organisation promoting and protecting the interests of small businesses.

Small businesses make up 99.3 per cent of all businesses in the UK, and make a huge contribution to the UK economy. They contribute 51 per cent of GDP and employ 58 per cent of the private-sector workforce.

If you ask the UK's small businesses what their infrastructure priorities are, you will invariably receive different replies. However, based on the 1,700-strong sample that responded to the infrastructure survey, a number of themes are common across the small business sector.

The focus of this report is broadband, and here we explore small business use of, and demand for, broadband, present the argument that broadband should no longer be regarded as a luxury but as an essential utility, and urge Government to reconsider its policy position and targets for broadband to reflect this.

“Small businesses make up 99.3 per cent of all businesses in the UK, and make a huge contribution to the UK economy”

Method

The infrastructure survey took place online during two weeks in February 2011 and received a total number of 1,739 responses. All UK regions and devolved areas were represented consistently, in accordance with the FSB membership throughout the UK, and the data has been weighted to the membership profile.¹

An appendix setting out a breakdown of the size, sector and geographical location of those small businesses responding to the FSB infrastructure survey can be found at the end of this report.

The infrastructure survey attracted responses from all parts of the

UK, and the results presented and conclusions drawn apply to all regions and nations unless otherwise indicated, such as a reference to a result in a particular region.

The FSB recognises that responsibilities for some of the issues discussed in this document are devolved to the respective governments of Scotland, Northern Ireland and Wales. While the devolved nations have different agencies, departments and institutions, and sometimes even separate legislation, we believe that our recommendations are relevant and apply in principle across the UK.

¹ Where results do not add up to 100 per cent, this may be owing to multiple responses or rounding. Results are based on all respondents (1,739) unless otherwise stated. The survey was undertaken by Research by Design on behalf of the Federation of Small Businesses.

Summary of Asks

The FSB calls on the Government to:

- Keep the National Broadband Strategy and related targets under review. The FSB urges the Government, in line with its transparency agenda, to take a transparent approach to the Strategy and its implementation, issuing progress reports at no more than six-month intervals.
- Linked to the above, the FSB urges the Government to ensure that UK ambitions are kept in line with EC targets, to ensure that UK enterprise is not at a competitive disadvantage to European counterparts.
- Set out a clear commitment to deploying universal superfast broadband across the UK, so avoiding a two tier country with respect to connectivity. The FSB urges the Government to set out, as quickly as possible, where the 'white areas' are expected to be after 2015 (i.e. the final

10 per cent), and to set out a commitment for that white area beyond 2015.

- Recognise, across all levels of Government, the importance of broadband for business growth, innovation, efficiency and flexible working and ensure that broadband objectives become an integral part of all relevant policy decisions, including future updates of the National Infrastructure Plan and related policy documents.
- Linked to the above, in recognition of the importance of broadband for business, include business coverage and business speed as indicators within the Government's UK broadband scorecard.
- Introduce a programme (with the support of the FSB) similar to Race Online, to raise business awareness and help small businesses realise the opportunities that broadband presents.

- Support the sharing of good practice across the UK and so lay the foundations for local communities, local authorities and local businesses to work together to identify innovative solutions for broadband deployment.

The FSB calls on Ofcom and the Government to:

- With regard to the forthcoming Spectrum auction, make a commitment to either attach a 98% coverage obligation to the license agreement or ensure that the additional funds secured, by not attaching a coverage obligation, are invested in deploying broadband to those areas not covered.

The FSB calls on local authorities and Local Enterprise Partnerships to:

- Work with their small business communities to develop local broadband plans that reflect the needs of local businesses.

Broadband Survey

Why broadband is an essential utility for small businesses

A fast, reliable and guaranteed broadband service is crucial for small businesses, particularly as we look to them for greater economic growth. Access to broadband not only opens up new markets to small businesses and allows them to take advantage of new efficiencies, it also creates opportunities for business leaders and staff to work remotely, reducing the need for travel and therefore taking some of the pressure off the UK's transport infrastructure.

"Broadband is a major essential 'utility' for this and many other businesses. It is not a luxury item."

² The Connected Kingdom, Boston Consulting Group, 2010

³ Current generation broadband is delivered via copper telephone lines and cable networks and has the potential to deliver speeds of up to 24 megabits per second.

⁴ CMA Internet Opportunity Survey, 2011

⁵ CMA Internet Opportunity Survey, 2011

In 2009, the internet contributed to an estimated £100 billion (7.2%) of the GDP in the UK. This share is larger than those of the country's construction, transportation and utilities industries. And it is SMEs that are increasingly taking advantage of the internet economy. Online sales for SMEs grew at a faster annual rate than those for larger companies during the period 2004 to 2008.²

As reported by the Boston Consulting Group, the internet delivers six primary benefits to businesses that use it: geographical expansion; access to online tools; easier recruitment of staff; simplified customer payments; increased feedback and interaction with customers; and more effective marketing.

Take-up and effective use of the internet can allow businesses to become more innovative, access new markets, create efficiencies and become more competitive in increasingly global markets. However, despite the potential promised by online access, the reality is often very different for small

businesses. Many struggle to obtain the internet speeds they require to run their business, reducing their productivity as a consequence. For nine per cent of small businesses, current generation broadband³ is not available across any of their sites. Twenty two per cent cannot access current generation broadband at at least one of their sites.⁴

For the 84 per cent of small businesses that use current generation broadband, there is a marked difference in the typical speeds received. Twenty-six per cent of small businesses have access to speeds of up to 2 Mbps – that's over a quarter that can't, or can only just, obtain speeds considered by Government to be a minimum level of service, able to deliver a reasonable user experience (that is for households, not businesses). Fourteen per cent of small businesses say they access speeds of over 2Mbps to 4Mbps; 38 per cent access speeds of over 4Mbps to 8Mbps. Only three per cent access speeds of over 24Mbps, and a further 14 per cent access speeds of over 10Mbps to 24Mbps.⁵

For some, this is perceived as adequate, given their operations; however, for most this creates substantial inefficiency and lost productivity.

“Inadequate broadband speeds are a major issue for our company – so much so that we have had to alter working practices and use services like cloud computing to process a lot of information.”

“Rural broadband coverage is very poor. We are located in a rural area – our office is 1.2 miles from the nearest village, which in turn is 3 miles away from the nearest exchange. Our broadband speed is only 0.5Mbps. We operate an Epos [Electronic Point of Sale] system that simply doesn’t work for most of the time.”

While inadequate broadband speeds are a bigger problem for rural areas (because deployment is generally more costly there and the social benefits delivered outweigh the benefits that the network operator would gain), it is not exclusively a rural problem.

“Broadband is an issue even in larger towns, where distance from the exchange and old wiring present problems for internet speed.”

Many small businesses also report significant discrepancies between the speeds promised by suppliers and the actual speeds obtained.

“It is unfair for the pricing to be based on supply of ‘up to 20 mbps broadband’ when in fact most rural areas can only receive between 2 and 5 mbps. Surely pricing should be based on what the consumer/business premises actually receives, not what they ‘could’ receive.”

Given how important the internet has become for communication, accessing and sharing information, and reducing costs, and given how fast our international counterparts are rolling out broadband and developing new technologies in response to this shift, broadband has become a necessity for businesses if they are to evolve and remain competitive. Broadband, therefore, is not an added luxury for small businesses, but rather a vital utility – similar to gas and electricity.

The FSB questions whether the Government’s target for everyone in the UK to have access to basic broadband (speeds of at least 2Mbps) and 90 per cent of each local authority to have superfast broadband⁷ by 2015 is stretching enough given the important contribution of broadband to economic growth. The FSB would also like some clarity regarding where the gaps in coverage are likely to be, and what attempts there will be in the future to achieve true universal superfast coverage.

What small businesses need – universal coverage versus superfast broadband

The Government must make a commitment to universal superfast broadband coverage,

and narrowing the so-called digital divide between rural and urban areas, to avoid a two tier country with regard to connectivity. Whilst a divide remains between those businesses that only have access to current generation broadband or less, and those businesses that have superfast broadband, there is a significant risk that some will be at a competitive disadvantage compared with both national and international counterparts.⁷ For many small businesses 2Mbps is just not sufficient to carry out some of their operations. Eighteen per cent of small businesses say that there are services they are unable to use via current generation broadband. Of those, 80 per cent say that this affects their organisation when innovating and/or using other new services.⁸

“2Mbps is woefully inadequate for modern cloud applications – one needs at least 20Mbps. Also, the upload speed is just as important and little is said about it, but VoIP, video conferencing and file transfers all need high-speed upload as well as download, i.e. 5Mbps (not 0.5Mbps as now).”

The CMA Internet Opportunity Survey found that small businesses would be very likely to take up superfast broadband once it becomes available to them. When asked how likely their organisation would be to adopt superfast broadband as soon as it became available, 40 per cent

6 Britain’s Superfast Broadband Future, BIS and DCMS, 2010

7 BDUK defines superfast broadband as having a potential headline access speed of at least 24Mbps, with no upper limit.

8 CMA Internet Opportunity Survey, 2011

9 CMA Internet Opportunity Survey, 2011

said they would be **likely** to adopt it and 28 per cent said that they would be **very likely** to adopt it.

However, despite this apparent demand for superfast broadband among small businesses, 79 per cent say that none of their business sites have superfast availability and only 8 per cent are currently using or implementing the use of superfast broadband.

Putting a benchmark figure on the exact speeds small businesses require is difficult, as each business has different needs, according to its operations. However, at present small businesses typically say they need beyond 8Mbps: 24 per cent said they would require over 8Mbps to 24Mbps, and over half (52%) said they required over 24Mbps to 100Mbps.⁹ However, given the speed at which new technologies, which require higher broadband speeds, are becoming available, it is impossible to set the upper limit of speed required by small businesses.

What is clear is that small businesses are currently unable to take advantage of technologies such as two-way video conferencing, mobile applications, trading on online markets and making full use of social networking tools, and it raises the question not only of the levels of lost productivity but also of what opportunities are being missed because of a lack of access to faster broadband.

According to the CMA Internet Opportunity Survey, the perceived benefits of superfast broadband for small businesses are primarily increased speed of communication – 42 per cent said this would be

the main benefit – followed by increased efficiencies (23%). Almost a tenth of small businesses said that it would help them to stay competitive.

Over half (52%) of small businesses say that they would use online markets as a result of having superfast broadband, and almost half (46%) say that they would use mobile applications.

The best superfast broadband in Europe?

The Government has set out its vision for the UK to have the best superfast broadband network and connected society in Europe by 2015.¹⁰ What is not yet clear is how that is to be measured. The FSB urges the Government to include business coverage and speed as indicators within their UK broadband scorecard, the proposed performance measure. It is critical that the scorecard reflects the importance of business connectivity for the potential value added and its important contribution to UK growth.

Since the Government has declared its appetite for putting all its business services online, this needs to be matched by a similar ambition regarding broadband deployment. In some areas, where small businesses have access to only very slow or, in many cases, no broadband, they are unable to carry out what Government requires of them in connection with tax returns and paying business rates and similar services. Thirteen per cent of small businesses say that they find interaction with online local and central government services difficult owing to an unreliable or too slow broadband connection.

“Compulsory filing of HMRC documents online is nigh-on impossible with a connection speed that is so slow it causes sites to time out for security reasons.”

Is mobile broadband a realistic alternative to fibre?

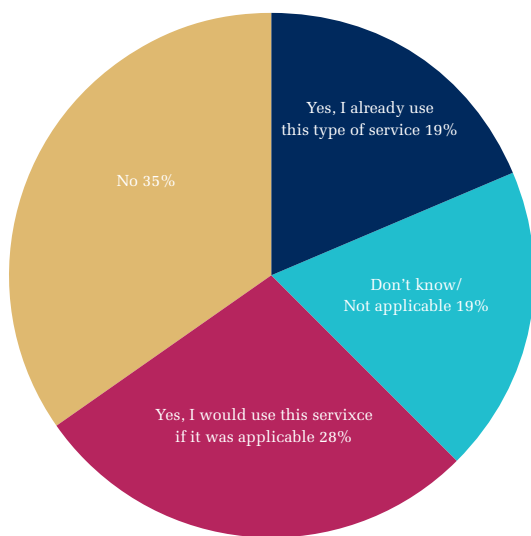
Where fibre-optic solutions are not available, the FSB believes that it makes sense to look at mobile solutions as a complement. Nearly half of small businesses (48%) say they already use mobile broadband or that they would use it if it were available in their area.

Mobile broadband has an important role to play in filling the gap in the current broadband market, and we believe that any comprehensive broadband strategy must include provisions for mobile broadband deployment. Having said that, there is no doubt that the best, most future-proof, broadband service comes through fibre-optic cable, so that must remain at the centre of the Government’s broadband strategy.

The forthcoming auction of the 800 MHz and the 2.6 GHz spectrum enabling 4G mobile services will not only affect competition in the market but could also bring in much-needed revenue that must be spent on deploying fibre in those areas of the UK that currently have a poor service. It is crucial that Ofcom and the Government ensure that competition is healthy in the mobile broadband market by careful allocation of spectrum bands. Three in four small businesses say that they believe competition between providers is crucial to driving the expansion of the UK’s broadband infrastructure.

¹⁰ Britain’s Superfast Broadband Future, BIS and DCMS, 2010

Fig 1: If a mobile broadband connection were available in your area, would you use this service for business purposes?



Base 733 (not currently using mobile broadband)

The FSB also believes that this is a once-in-a-generation opportunity to improve mobile broadband coverage and ensure that as many people benefit from it as possible. The FSB therefore urges Ofcom to either attach a 98 per cent coverage obligation to the licence agreement (the current commitment is 95 per cent of the population, 90 per cent of the time¹¹) or ensure that the additional funds secured, by not attaching a coverage obligation, are invested in deploying fibre broadband to those areas least likely to be reached by the market.

The role of communities

When asked who they thought has the main responsibility for ensuring

that all areas of the UK have access to superfast broadband, over half of small businesses (51%) said that the Government has the main responsibility; 27 per cent said operators and internet service providers, 13 per cent said Ofcom, and only two per cent said that local communities have the main responsibility.¹²

However, the Government envisages a critical role for communities in securing and extending superfast broadband. Building on the Superfast Broadband Pilots, announced as part of the spending review in October 2010, the Government is encouraging local bodies to prepare plans for broadband infrastructure. These local broadband plans are expected to set out how broadband

will be delivered in their area and, if approved, will allow local communities to obtain a share of the £530 million earmarked for delivering broadband in those areas that otherwise wouldn't be provided for by the market.

The FSB therefore urges local authorities and Local Enterprise Partnerships to work with their small business communities to develop local broadband plans, and in doing so to identify the needs of local businesses.

Broadband for growth

If the Government is serious about its growth agenda and wants to see the UK's small businesses lead the way in generating economic growth, it must commit to going faster and deeper in its vision and targets for the deployment of broadband.

In terms of superfast broadband, small businesses cannot plan their business operations on the basis of something that doesn't currently exist or where there is no certainty about when something will become available. They need predictability and certainty. Small businesses will not start investing in and building up their business in the vague hope that they may have access to superfast broadband at some point in the future. It must be there first before we will see any radical change in small businesses' operations and plans for growth and investment in the internet economy.

¹¹ Consultation on assessment of future mobile competition and proposals for the award of 800 MHz and 2.6 GHz spectrum and related issues, Ofcom, 2011

¹² CMA, Internet Opportunity Survey, 2011

Appendix

Breakdown of the size, sector and geographical location of those small businesses responding to the FSB infrastructure survey

Sector: Base 1739		
Business services	332	19.10%
Retailing	210	12.10%
Manufacturing	185	10.60%
Construction and building related activities	181	10.40%
Hotels, restaurants, bars and catering	107	6.20%
Computer and related activities	80	4.60%
Transport and activities related to transport	71	4.10%
Creative services	68	3.90%
Wholesale trade	62	3.60%
Financial services	54	3.10%
Agriculture, forestry, fishing	51	2.90%
Other	46	2.60%
Education	42	2.40%
Health and social work	40	2.30%
Sale, maintenance and repair of motor vehicles and fuel retail	39	2.20%
Real estate activities	37	2.10%
Personal services (e.g. dry cleaning, hairdressing)	31	1.80%
Leisure/sports/Entertainment	30	1.70%
Engineering	13	0.70%
Electricity, gas and water supply	12	0.70%
Renting of machinery, equipment, personal and household goods	11	0.60%
Research and development activities	10	0.60%
Post, courier and telecommunications services	8	0.50%
Electronics/Electrical	7	0.40%
Refused	6	0.30%
Repairs/Maintenance (other than motor vehicles)	5	0.30%
Mining & quarrying	1	0.10%

No. of Employees: Base 1679		
None	166	9.90%
Up to 10	1332	79.30%
11 to 20	107	6.40%
21 to 50	59	3.50%
51+	15	0.90%

Region: Base 1738		
South East	296t	17.00%
South West	291	16.70%
Scotland	194	11.20%
Eastern	185	10.60%
East Midlands	155	8.90%
West Midlands	123	7.10%
North West	122	7.00%
Wales	108	6.20%
Yorkshire and The Humber	100	5.80%
Northern Ireland	80	4.60%
London	50	2.90%
North East	34	2.00%

Gender: Base 1739		
Male	1318	75.80%
Female	421	24.20%

Age: Base 1739		
16 to 24	1	0.10%
25 to 34	63	3.60%
35 to 44	272	15.60%
45 to 54	597	34.30%
55 to 64	639	36.70%
65 to 74	149	8.60%
75+	14	0.80%
Refused	4	0.20%



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